Pledge Guarantee for Health (PGH)

SSWG Update – October 2013
Health financing volatility in developing countries destroys value and has adverse impacts on the procurement system and end users.

Volatility of health aid is higher than government health spending\(^1\)

<table>
<thead>
<tr>
<th>Public health spending volatility</th>
<th>Health aid volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.1</td>
<td>0</td>
</tr>
<tr>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>0.5</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Examples of negative impacts

- **Stock-outs**: Recipients run out of key health commodities or face dangerously low stocks while waiting for donor funding.
- **Higher per item costs**: Delayed funding leads to acute shortages which reduces recipient bargaining power and often leads to supplier charging risk premiums due to payment and production uncertainties.
- **Additional emergency costs**: Emergency production and shipping fees to compensate for the time lost waiting for disbursement.

Lost $0.07-0.28 for every $1 of aid due to the unpredictability\(^1\)

\(~2.8\text{B}^*\) in value is lost due to inefficiencies (funding, logistics, delivery, etc.).

Lack of access to financial tools for recipients of donor financing to effectively manage volatility

The PGH process offers benefits for stakeholders

<table>
<thead>
<tr>
<th>Normal process</th>
<th>PGH</th>
<th>Increased operational efficiencies for suppliers</th>
</tr>
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<tbody>
<tr>
<td>Donor Funding approval</td>
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<td>Donor engages in approval process</td>
</tr>
<tr>
<td>Funds disbursed</td>
<td>Funds disbursed</td>
<td>Donor process for disbursement also has milestones before triggering fund transfer</td>
</tr>
<tr>
<td>Procurement</td>
<td>Procurement</td>
<td>PGH Financing</td>
</tr>
<tr>
<td>Delivery</td>
<td>Delivery</td>
<td>- PGH approval</td>
</tr>
<tr>
<td>- Donor engages in approval process</td>
<td>- Donor process for disbursement also has milestones before triggering fund transfer</td>
<td>- Bank loan</td>
</tr>
<tr>
<td>- Increased operational efficiencies for suppliers</td>
<td>- Accelerated procurement process with Bank L/Cs</td>
<td>- After disbursement commercial bank loan repaid</td>
</tr>
<tr>
<td>- Increased lead time for production/delivery</td>
<td>- Advanced lead time</td>
<td>- Emergency production and delivery</td>
</tr>
<tr>
<td>- Shortened sales process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Streamlined payment thru bank L/Cs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Legend:
- Stock out
- Delivery
- PGH Financing
PGH has had notable accomplishments during the proof of concept phase.
The PGH value proposition leverages guarantees to stabilize aid flows and incentivizes supplier investments (increased quality and access while lowering price) to ultimately enhance value for donor dollars.

<table>
<thead>
<tr>
<th>Leverage private capital to smooth donor funding flows</th>
<th>Reduce business risk for suppliers to incentivize investments in increased quality, affordability and access</th>
<th>Increase procurements that have greater value for money baked in</th>
</tr>
</thead>
</table>

**Accelerated**

- Ability to rapidly issue bridge funding while waiting for donor disbursement to avoid **stock-outs** which can have dangerous impacts on both patients and the community.

**Empowered**

- Allow buyers to leverage **negotiating power** by removing risks in the procurement process that cause suppliers to price in premiums (e.g. better payment certainty, pooled procurement, etc).

**Efficient**

- With better control of the procurement timing, recipients will be able to **avoid emergency production and delivery** which are costly and come at the expense of additional beneficiaries.

Increase aid effectiveness
To create the Pledge Guarantee for Health (PGH), an innovative financing mechanism which provides short term working capital to recipients of donor funds to smooth and increase the predictability of financing for health commodities. This project will aim to provide a proof of concept that short term working capital financing will improve access to health supplies. As part of the proof of concept, the PGH will be funded for 3 years by BMGF to focus on reproductive health supplies as a key target market, thereby addressing the reproductive health burden, particularly in regions where contraceptive prevalence rate is low. The PGH will also serve other key health commodities, based on customer demand and potential for health impact.

Using Pledge Guarantee for Health (PGH), successfully brought different stakeholders together to provide working capital of multiple sources (commercial and trade finance) to recipients of donor funds to smooth and increase access to health commodities. Although a 3 year time horizon was expected, due to both a limited funding and early termination, activities were only for 1 year.

### Year 2 Results

<table>
<thead>
<tr>
<th>Objective</th>
<th>Expected</th>
<th>Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deals (#)</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Median loan size ($M)</td>
<td>3</td>
<td>8.4</td>
</tr>
<tr>
<td>Loan volume ($M)</td>
<td>30</td>
<td>17</td>
</tr>
<tr>
<td>Savings (%)*</td>
<td>10-20%</td>
<td>90%</td>
</tr>
<tr>
<td>Project funding ($M)</td>
<td>6</td>
<td>2.7</td>
</tr>
<tr>
<td>Project timing (Y)</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

*Savings calculated as $ saved as a share of deal $ executed*
During its proof of concept, PGH identified 8 key learnings that need to be incorporated in its model going forward.

- **Operational**
  - Pay now, save now
  - Risks and rewards must be shared appropriately
  - Diversify across disease classes
  - Clear targets and supporter commitments are critical

- **Organizational**
  - Best execution depends on a team with the right skill-set
  - Staying focused on execution requires stable financial support
  - Funded guarantees are more attractive for PGH partners

- **Financial**
  - PGH’s institutional home must be a strong strategic fit
PGH intends to create a 5 year guarantee fund that has the potential to mobilize $1B in financing to accelerate health commodity procurement.
PGH will be able to engage in 126 countries around the world

1. Angola
2. Algeria
3. Benin
4. Botswana
5. Burkina Faso
6. Burundi
7. Cameroon
8. Cape Verde
9. CAR
10. Chad
11. Comoros
12. Djibouti
13. Egypt
14. Ethiopia
15. Gabon
16. Gambia
17. Ghana
18. Guinea
19. Guinea-Bissau
20. Ivory Coast
21. Kenya
22. Lesotho
23. Liberia
24. Malawi
25. Mali
26. Mauritania
27. Mauritius
28. Morocco
29. Mozambique
30. Namibia
31. Niger
32. Nigeria
33. Rwanda
34. Sao Tome & Principe
35. Senegal
36. Sierra Leone
37. Somalia
38. South Africa
39. South Sudan
40. Swaziland
41. Tanzania
42. Togo
43. Tunisia
44. Uganda
45. Zambia
46. Zanzibar

1. Afghanistan
2. Albania
3. Armenia
4. Azerbaijan
5. Bangladesh
6. Belarus
7. Bhutan
8. Bosnia-Herzegovina
9. Bulgaria
10. Cambodia
11. Croatia
12. Estonia
13. Fiji
14. Georgia
15. India
16. Indonesia
17. Iraq
18. Jordan
19. Kazakhstan
20. Kiribati
21. Kosovo
22. Kyrgyzstan
23. Laos PDR
24. F.Y.R.M.
25. Malaysia
26. Maldives
27. Marshall Islands
28. Micronesia FS
29. Moldova
30. Mongolia
31. Montenegro
32. Nepal
33. Pakistan
34. Papua New Guinea
35. Philippines
36. Romania
37. Russian Federation
38. Samoa
39. Serbia
40. Solomon Islands
41. Sri Lanka
42. Tajikistan
43. Thailand
44. Timor-Leste
45. Tonga
46. Turkey
47. Turkmenistan
48. Tuvalu
49. Ukraine
50. Uzbekistan
51. Vanuatu
52. Vietnam
53. West Bank & Gaza
54. Yemen
PGH will prioritize deals that leverage pledges from key bilateral, multilateral and foundation donors, but will consider additional donors with prior USAID approval.

### Bilateral
1. Australian Aid Agency
2. Canadian International Development Agency (CIDA)
3. Department for International Development (DFID)
4. French Development Aid Agency (AFD)
5. KfW Development Bank (KfW)
6. Norwegian Agency for Development Cooperation (NORAD)
7. Swedish International Development Cooperation Agency (SIDA)
8. Sovereign Funding (countries that supply receivables that are backed by their own national funds)

### Multilateral
1. African Development Fund (AFD)
2. Global Fund for AIDS, TB, Malaria (Global Fund)
3. Inter-American Development Bank (IDB)
4. UNITAID
5. United Nations Populations Fund (UNFPA)
7. United Nations Development Programme (UNDP)
8. World Bank (WB)

### Foundation/NGO
1. Bill and Melinda Gates Foundation (BMGF)
2. Buffet Foundation
3. Calvert Foundation
4. Hewlett Foundation
5. International Planned Parenthood Federation (IPPF)
6. Marie Stopes International
7. Packard Foundation
8. Pharmaccess
9. Soros Foundation

Some corporate may make pledges directly (not leveraging their Foundation groups) and such pledges will be considered eligible pledges but require DCA prior approval.
PGH’s M&E methodology is routed in a theory of change driven on delivering value for money in both Health and Financial systems irrespective of deals…

- **a) Advocacy** (i.e. Comoros)
- **b) Non-Guarantee Deals** (i.e. Philippines)
- **c) Guarantee Deals** (i.e. Zambia, Ethiopia)

**Output:** $ mobilized

**Outcomes:**
- Health System Value-for-Money
- Financial System Value-for-Money

**Impact Indicators:**
- **1a/b/c:** $ saved, extra product procured
- **2a/b/c:** Health/social impact (deaths averted, CYP)
- **3a/b/c:** Supply chain speed (time to delivery, time to disbursement)
- **4a/b/c:** Financial efficiency ($ mobilized per Guarantee $)
- **5a/b/c:** Financial scale (Net $ mobilized)
…and we are already starting to see some quick wins

- **Leverage private capital to smooth donor funding flows**
- **Reduce business risk for suppliers to bake greater value for money**
- **Increase procurements that incentivize investments in increased quality and affordability**
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- **Accelerated**
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- **Efficient**
  - With better control of the procurement timing, we will be able to avoid emergency production and delivery which are costly and come at the expense of additional beneficiaries
The five year trajectory for PGH will involve ramp-up, transaction scale and diversity, and eventual hand-off to suppliers and private banks.
…and with the help of our partners we are well on our way